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ABSTRACT

This review analyses the level of pension contributions paid in Great Britain mainly in 2005. The main contribution data have also been compiled into statistics series. The aim of the review is to provide an overview of the total cost of pension financing when taking into account occupational pensions and the government's share of financing in addition to the statutory pension contributions. Pension assets and related investment operations are not included in the analysis.

Pension contributions have been compared in relation to the market and basic (factor) price GDP, as well as the wage bill and to the compensation of employees (including also the employer's social security contributions). By using different indicators, we have sought to achieve maximum comparability between the results of different countries. The review also presents examples of employee and employer pension contributions.

All pension contributions in relation to GDP at market prices was 11.88 per cent and in relation to GDP at basic prices 12.76 per cent.

The review is part of a more extensive comparison of the total level of pension contributions in nine European countries in 2005 made by the Finnish Centre for Pensions. Besides Finland, the countries compared are Denmark, France, Germany, Great Britain, the Netherlands, Norway, Sweden and Switzerland. The data concerning the other countries will be published as separate reviews. The overall results of the comparison have been published in the publication *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

ABSTRAKTI

Tässä selvityksessä tarkastellaan Isossa-Britanniassa maksettujen eläkevakuutusmaksujen tasoa pääasiassa vuonna 2005. Keskeisimmät maksutiedot on koottu myös tilastosarjoiksi. Katsauksen tavoitteena on antaa kuva eläketurvan aiheuttamasta kokonaismaksurasituksesta, kun huomioon otetaan lakisääteisten eläkemaksujen lisäksi maksut lisäeläkejärjestelmiin sekä valtion osuus rahoituksesta. Eläkevarat ja niihin liittyvä sijoitustoiminta on jätetty tarkastelun ulkopuolelle.

Eläkemaksuja on verrattu suhteessa markkina- ja tuottajahintaiseen bruttokansantuotteeseen sekä palkkasummaan ja työnantajan sosiaaliturvamaksut sisältävään palkansaajakorvaukseen. Eri mittareilla on pyritty mahdollisimman vertailukelpoiseen tulokseen eri maiden välillä. Katsauksessa on lisäksi esitetty esimerkkilaskelmia yksittäisestä palkansaajasta perittävistä eläkemaksuista.

Markkinahintaiseen bruttokansantuotteeseen suhteutettuna kaikkien eläkevakuutusmaksujen osuus oli 11,88 prosenttia ja suhteessa tuottajahintaiseen bruttokansantuotteeseen 12,76 prosenttia.

Selvitys on osa Eläketurvakeskuksessa laadittua laajempaa eläkemaksujen kokonaistasoa koskevaa vertailua yhdeksässä Euroopan maassa vuonna 2005. Suomen lisäksi muut tarkastelumaat ovat Alankomaat, Iso-Britannia, Norja, Ranska, Ruotsi, Saksa, Sveitsi ja Tanska. Muita maita koskevat tiedot julkaistaan erillisinä katsauksina. Kokonaistulokset on esitetty julkaisussa *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

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1 Introduction

In Great Britain statutory pension provision for old age consists of the basic pension and the earnings-based pension. The insured person may substitute the statutory additional pension by different occupational or private pension arrangements.

In Great Britain the National Insurance scheme covers all wage earners and self-employed persons who have reached the age of 16. The benefits paid from the National Insurance scheme are basic pensions, which are determined on the basis of the time of contributions based on employment and corresponding periods. The pensions are not proportional to earnings; instead they have a flat-rate maximum amount based on a full period of contributions. The pension decreases in relation to the time which is missing from a full period of contributions. However, married women may also be granted a pension on the basis of the contributions paid by the husband.

The benefits granted from the statutory additional pension scheme in National Insurance (State Second Pension, S2P) are earnings-based pensions. The S2P scheme only covers wage earners; it does not cover self-employed persons. The employer may substitute the employees' statutory additional pension provision by occupational pension arrangements. An individual employee may also contract out of the S2P pension by arranging a personal pension. In both cases the substituting arrangements should in principle give provision at least at the same level as the statutory additional pension scheme. The S2P scheme replaced the preceding SERPS scheme in April 2002.

The targeted levels of the statutory pensions are pretty low, but they are often supplemented by occupational and personal pension arrangements. The State supports additional pension arrangements through the taxation. The proportion of the pension contributions in relation to the wage varies considerably depending on whether the employee is covered by the employer's additional pension scheme or only by statutory pension provision. For persons who are only covered by statutory pension provision the pension contributions are low in comparison to the Finnish contributions, but the level of provision is also low.

An estimated 50 per cent of the wage earners are covered by additional pension provision. Approximately 90 per cent of these occupational pension arrangements at the same time replace the statutory additional pension. The Government has set as an objective that in the long term the pension of the country's citizens would consist to 60 per cent of private and occupational pensions, and to 40 per cent of the earnings-based and the basic pension. The share of the statutory pension has in recent years been approximately 56 per cent of the pensioner's income and the share of private pension arrangements 44 per cent.

2 Pension contribution level in 2005

In Great Britain the costs for pensions are, in contrast to the normal calendar year approach, analysed over the period of determining the tax year related to the drawing up of accounts. The tax year changes 6 April, and for most schemes this date means the end of the financial year. In this analysis the tax year 2005–2006 is included.

GDP at market prices amounted to approximately £1 224.5 billion (€1 790 billion), GDP at basic (factor) prices to £1 138.6 billion (€1 590 billion), the wage sum to £576.6 billion (€843 billion) and the compensation of employees to £685.3 billion (€1 002 billion).

Table 1. *Premium income for pensions in Great Britain in 2005 in relation to GDP and the wage sum.**

	billion £ (€)	% of GDP at market prices	% of GDP at basic (factor) prices	% of the wage sum	% of the compensation of employees
Tax revenues used for minimum provision ^a	9.7 (14.2)	0.80%	0.85%	1.68%	1.42%
Basic pension and earnings-based pension ^{**b}	58.6 (85.7)	4.79%	5.15%	10.16%	8.55%
Public-sector pension schemes ^c	20.2 (29.5)	1.65%	1.77%	3.50%	2.95%
Premium income for additional pension provision	56.8 (83.1)	4.64%	4.99%	9.85%	8.29%
- personal ^d	14.7 (21.5)	1.20%	1.29%	2.55%	2.15%
- occupational ^e	42.1 (61.6)	3.44%	3.70%	7.30%	6.14%
Total	145.3 (212.5)	11.88%	12.76%	25.20%	21.20%

* According to statistics of the Bank of Finland, the exchange rate of the pound sterling in 2005 was on average 1 EUR = 0.68380 GBP, i.e. 1 GBP = 1.46242 EUR.

** The contribution shares of employers, employees and others in the basic and earnings-based pension have been estimated on the basis of the total National Insurance contributions and their relative share of the expenditure for earnings-related pensions.

a) Pension credit, Non-contributory Retirement Pension, War pensions and war widows pensions, Over-65s payment, Over-70s payment, non contributory Christmas Bonus

b) Contributory Retirement Pension – basic, Contributory Retirement Pension – earnings related, Incapacity benefits – long term, Incapacity Benefit – earnings related, Widow's and Bereavement benefits, Christmas Bonus. Disability benefits payable for periods of less than a year are not included in the analysis, since in view of Finnish practice they mainly correspond to sickness allowance, not pensions.

c) Consist mainly of pension schemes for civil servants, the armed forces, teachers and healthcare personnel, and as regards local government pension schemes for police officers and fighter pilots. Includes imputed social contributions.

d) Personal Pensions, private (and group personal), stakeholder pension and Free Standing Additional Voluntary Contributions (FSAVCs).

e) Funded occupational pension schemes.

Sources: Blue Book 2007; MQ5: Investment by insurance companies, pension funds and trusts; Wild 2006.

Table 2. *Pension contributions in relation to GDP and to wages in 2005.*

Pension contributions	% of GDP	% of GDP (basic (factor) prices)	% of the wage sum	% of the compen- sation of employees
Employer contributions	6.72%	7.22%	14.26%	12.00%
Basic pension and earnings-based pension ^{a,b}	2.66%	2.86%	5.65%	4.75%
Public-sector pension schemes ^c	0.69%	0.74%	1.47%	1.24%
Additional pension provision	3.36%	3.62%	7.14%	6.01%
- personal ^d	0.50%	0.54%	1.06%	0.89%
- occupational ^e	2.87%	3.08%	6.09%	5.12%
Employee contributions	3.80%	4.08%	8.06%	6.78%
Basic pension and earnings-based pension ^{a,b}	1.97%	2.12%	4.18%	3.52%
Public-sector pension schemes ^c	0.56%	0.60%	1.18%	0.99%
Additional pension provision	1.27%	1.37%	2.71%	2.28%
- personal ^d	0.70%	0.76%	1.49%	1.25%
- occupational ^e	0.57%	0.61%	1.21%	1.02%
Self-employed person's contributions				
Basic pension and earnings-based pension ^{a,b}	0.16%	0.17%	0.34%	0.29%
Tax revenues used for minimum provision^a	0.80%	0.90%	1.70%	1.40%
Total	11.47%	12.38%	24.36%	20.47%
Public-sector pension schemes, imputed social contributions ^c	0.41%	0.44%	0.86%	0.73%
Total, incl. imputed social contributions	11.88%	12.81%	25.22%	21.19%

* The contribution shares of employers, employees and others in the basic and earnings-based pension have been estimated on the basis of the total National Insurance contributions and their relative share of the expenditure for earnings-related pensions.

a) Pension credit, Non-contributory Retirement Pension, War pensions and war widows pensions, Over-65s payment, Over-70s payment, non contributory Christmas Bonus

b) Contributory Retirement Pension – basic, Contributory Retirement Pension – earnings related, Incapacity benefits – long term, Incapacity Benefit – earnings related, Widow's and Bereavement benefits, Christmas Bonus. Disability benefits payable for periods of less than a year are not included in the analysis, since in view of Finnish practice they mainly correspond to sickness allowance, not pensions.

c) Consist mainly of pension schemes for civil servants, the armed forces, teachers and healthcare personnel, and as regards local government pension schemes for police officers and fighter pilots.

d) Personal Pensions, private (and group personal), stakeholder pension and Free Standing Additional Voluntary Contributions (FSAVCs).

e) Funded occupational pension schemes

Sources: Blue Book 2007; MQ5: Investment by insurance companies, pension funds and trusts; Wild 2006.

The financing of statutory pension provision is entirely based on the pay-as-you-go principle. Basic and additional pension provision is financed through the insured person's and the employer's contributions. The National Insurance contribution (NIC) is also used to cover other social insurance expenditure¹. Non-contributory minimum pensions are financed from general tax revenues. In 2005 the amount of collected National Insurance contributions totalled approximately £85 billion.

1 Covers pension insurance, sickness insurance, maternity leave, workers compensation and unemployment insurance contributions.

Table 3. *National Insurance contributions in Great Britain, million £.*

	2000	2001	2002	2003	2004	2005
Employers' social insurance contributions	34 028	35 706	35 735	39 890	43 586	47 234
Employees' social insurance contributions	24 175	25 236	25 357	29 055	32 396	34 954
Self-employed persons' and non-active persons' social insurance contributions	2 049	2 183	2 318	2 595	2 727	2 843
Total social security contributions (National Insurance contributions)	60 252	63 125	63 410	71 540	78 709	85 031

Source: Blue Book 2007.

Contributions are levied from everyone whose earnings exceed a certain minimum amount. Contributions may also be paid on a voluntary basis in order to maintain and improve insurance provision.

3 Financing of the statutory pension scheme

3.1 Non-contributory pensions

Persons who live in Great Britain may in certain cases be paid non-contributory old-age pensions, disability benefits and other means-tested benefits, if their contributory pensions are small or they are not entitled to such pensions. However, there are a considerable number of different benefits available, and the so-called pension benefits include e.g. Christmas Bonus as well as Winter Fuel Payments granted for the heating of houses and apartments, and television fees granted to over 75-year-olds. In 2005 Winter Fuel Payments were paid to approximately 11.4 million persons and the payment amounted to £100–200, in addition to which a person who has reached the age of 80 may receive a further £50–100. For the sake of comparison, Pension Credit (see appendix 1) was paid to approximately 2.6 million persons in 2005.

The amount of contributions collected to finance minimum provision has been estimated on the basis of expenditure. Non-contributory minimum pensions are financed from general tax revenues.

The British pension scheme differs considerably from e.g. the Finnish pension scheme, which in some instances may cause slight interpretation difficulties. Table 4 specifies the benefits which are considered comparable to minimum pension benefits, and in addition some broadly used benefits which are directed at pensioners are also listed separately. In Finland these benefits are probably considered benefits comparable to e.g. housing allowance.

Table 4. *Expenditure estimated for financing of minimum provision for the tax years 2000/01–2007/08, million £.*

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Pension credit	4 095	4 486	4 484	4 851	5 971	6 426	6 865	7 328
Severe disablement allowance	1 014	1 040	958	936	918	900	905	887
Others*	163	165	166	171	685	2 375	179	180
Total	5 272	5 691	5 608	5 958	7 574	9 701	7 949	8 395
Winter fuel payments	1 749	1 681	1 705	1 916	1 962	1 982	2 011	2 059
Attendance allowance	2 955	3 124	3 251	3 457	3 674	3 924	4 148	4 392
Total	9 976	10 496	10 564	11 331	13 210	15 607	14 108	14 846

* Others includes: War pensions and war widows pensions, Over-65s payment, Over-70s payment, non-contributory Christmas Bonus. The time series are incomplete as regards the coverage of the war pensions and war widows pensions, the Over-65s payment and Over-70s payment. However, the data for 2005 are comprehensive. Source: Budget 2007; DASA.

3.2 Basic pension in the National Insurance scheme and the earnings-based pension in the National Insurance scheme (earnings-related pension)

The Basic State Pension is a flat-rate pension where the amount of the pension depends on the number of National Insurance contributions paid (National Insurance record). The S2P pension is an additional pension in the National Insurance scheme paid on top of the basic old-age pension (State Pension). The amount of the benefits depends on the earnings level during the time of contribution payment. The S2P scheme is mandatory for all wage earners whose earnings exceeded the Lower Earnings Limit (LEL) of £4 264 (€6 276) for the contributions in 2005/2006. Statutory additional pension provision does not cover self-employed persons.

The employer may arrange pension provision for the employees which replaces pension provision in the S2P scheme in its own pension plan in the same manner as in SERPS. The employee may opt out of the S2P scheme at any time by arranging personal pension provision for himself or herself. Arrangements which replace the S2P include, among others, occupational pension plans, Stakeholder pensions and other private pension arrangements. This procedure is called contracting out. In both cases, the contracted-out pension arrangement should in principle be at least of a corresponding level to S2P provision. The contracted-out pension schemes may also be based on labour market agreements and concern the whole industry or a certain professional group. Thus, for instance, public-sector employees have their own contracted-out pension schemes.

Employers and employees who are covered by a contracted-out occupational pension scheme pay lower statutory social insurance contributions. The contribution rebates and the additionally paid refunds to defined contribution pension schemes are determined so that the contributions which correspond to them are in principle sufficient to finance a contracted-out pension arrangement of a level corresponding to that of the S2P.

3.2.1 Contribution classes and social insurance contribution percentages

There are five contribution classes: contributions in class 1 are paid by employees and employers contributions in class 1.A are levied from employers for the employees who have e.g. a company car or comparable benefit, contributions in classes 2 and 4 are levied from self-employed persons, and contributions in class 3 are levied for voluntary insurance. The contributions in classes 1 and 4 are linked to earnings, and they are levied in connection with the taxation. The contributions in classes 2 and 3 are flat-rate, and they are levied by the Contributions Office of the tax administration.

In contribution class 1 the contributions are levied as a percentage of the gross wage. The employee's contributions have a lower and an upper earnings limit. When determining the contributions and the benefits a so-called Earnings Threshold, ET is used. Contributions are levied from the employee on the earnings which exceed the Earnings Threshold. In addition

to the aforementioned, the Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL) are concepts which are used in many connections also when discussing insurance periods and benefits. These earnings limits and benefits are usually adjusted at the beginning of April, when the tax year changes.

In the tax year 2005/2006 the Lower Earnings Limit (LEL) was £82 (approx. €118) per week and the Upper Earnings Limit (UEL) £630 (approx. €908). The Earnings Threshold (ET) was £94 (approx. €135) per week in the tax year 2005/2006. If the employee's earnings are lower than the Lower Earnings Limit, no contributions are levied, and usually also no entitlement to benefits arises for this period. Contributions are also not levied, if the earnings exceed the Lower Earnings Limit but are below the Earnings Threshold. However, in this case the contributions are considered as having been paid and the insured person is entitled to benefits. If the employee's earnings exceed the Earnings Threshold, contributions are levied on the whole part of the income which falls below the Upper Earnings Limit. The employer further pays contributions also for the part of the earnings which exceed the Upper Earnings Limit.

Table 5. *Social insurance contribution in the tax year 2005/2006, % of the wage.*

Earnings level, £/month	Employer	Employee	Total
< 408	-	-	-
408–2 730	12.8	11.0	23.8
2 730–	12.8	1.0	13.8

The employee's contribution includes a healthcare contribution of 2.05 percentage points in the contribution for earnings between the Earnings Threshold and the Upper Earnings Limit, and a healthcare contribution of 1.0 percentage points in the contribution for earnings which exceed the Upper Earnings Limit. The employer's contribution includes a healthcare contribution of 1.9 percentage points.

If the employee is covered by a contracted-out occupational pension plan, the contributions are lower. If, on the other hand, the S2P pension has been replaced by a personal pension arrangement, normal contributions are paid. The tax administration pays a contribution refund on the employee's behalf on to the personal pension arrangement.

In the tax year 2005/2006 the employee's contribution for earnings which exceed the Earnings Threshold was 11 per cent up to earnings which amount to the Upper Earnings Limit, and for earnings which exceed this limit 1 per cent. If the employee is covered by a contracted-out occupational pension scheme, the contribution rate for earnings between the Earnings Threshold and the Upper Earnings Limit was 9.4 per cent and for the earnings exceeding this limit 1 per cent in the tax year 2005/2006. The contribution rebate (9.4%) is also granted for weekly earnings of £94–630 (€137–918), if the employee is covered by some other appropriate occupational pension scheme, and for earnings exceeding this limit the contribution is 1 per cent. No employer's contribution is levied for the part of the wage which falls below the Earnings Threshold (ET). For the whole part of the wage which exceeds the Earnings Threshold the employer's contribution rate is 12.8 per cent, if the employee is not covered

by the employer's contracted-out pension scheme. When the person reaches retirement age, contributions need no longer be paid.

The employer's contribution in defined benefit pension schemes for the part of the wage which ranges from the Earnings Threshold to the Upper Earnings Limit (UEL) is 9.3 per cent and for the part of the wage which exceeds the Upper Earnings Limit 12.8 per cent without any ceiling. In defined contribution pension schemes the employer's contribution for the part of the wage which ranges from the Earnings Threshold to the Upper Earnings Limit is 11.8 per cent and for the part of the wage which exceeds the Upper Earnings Limit 12.8 per cent. The employers receive a rebate of 3.5 per cent, if the employees are covered by an appropriate defined benefit scheme, and a rebate of 1 per cent, if the employees are covered by an appropriate defined contribution scheme. As regards defined contribution schemes, the Government compensates the employer for the contributions on the basis of the employee's age.

Self-employed persons, which also include farmers, pay flat-rate contributions (contribution class 2) and in addition possibly an earnings-based contribution (contribution class 4) on the profit or income determined in the taxation. The flat-rate contribution amounted to £2.10 (approx. €3) per week in the tax year 2005/2006. If the annual net earnings fall below a certain limit, it is possible to apply for an exemption from this contribution. The earnings limit in the tax year 2005/2006 was £4 895 (approx. €7 187). The earnings-based contribution was 8 per cent of the net return or profit for annual earnings in the range of £4 895–32 760 (approx. €7 187–48 098) in the tax year 2005/2006. For earnings which exceed the upper limit a contribution of 1 per cent is paid. The self-employed persons' contributions entitle to the National Insurance scheme's basic pensions and maternity allowance, but not to any other contributory benefits.

Table 6. *Social insurance contribution for employee covered by contracted-out occupational pension scheme in the tax year 2005/2006, % of the wage.*

Earnings level, £/month	Employer	Employee	Total
Defined benefit 408–2 730	9.3	9.4	18.7
Defined benefit 2 730–	12.8	1.0	13.8
Defined contribution 408–2 730	11.8	9.4	21.2
Defined contribution 2 730–	12.8	1.0	13.8

In the tax year 2005/2006 the rebate on the employee's contribution in defined benefit schemes was thus 1.6 percentage points and on the employer's contribution 3.5 percentage points, i.e. in total 5.1 percentage points. In defined contribution schemes the rebate on the employee's contribution was 1.6 percentage points and on the employer's contribution 1 percentage points, i.e. in total 2.6 percentage points. In addition, the Contributions Office of the tax administration pays directly into the scheme a refund for each employee according to the employee's age.

Voluntary contributions may be paid in order to receive or maintain entitlement to the National Insurance scheme's old-age pensions and survivors' pensions. Statutory additional pension provision (S2P) cannot be maintained through voluntary contributions. The contribution amounted to £7.35 per week in the tax year 2005/2006.

3.2.2 Earnings-related pension expenditure

Since the statutory pension contribution is part of the NIC, the share used for pensions has been estimated by calculating the share of statutory pension expenditure in the total social insurance expenditure. In Great Britain the disability pension is divided into benefits paid for shorter periods than one year and long-term disability pensions. The disability benefits paid for shorter periods than one year may be considered as corresponding to the Finnish practice of sickness allowance, and they are thus not included in the analysis².

In 2005 disability pension in the form of a basic pension was paid to approximately 11.7 million insured persons.

Table 7. *Expenditure used for earnings-related pensions in relation to the National Insurance contributions, million £.*

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
National Insurance scheme's basic pension	33 986	36 565	38 469	39 828	41 409	43 218	44 752	47 325
National Insurance scheme's additional pension (S2P)	4 731	5 328	5 869	6 648	7 363	8 174	9 005	10 148
Disability pension	6 175	6 126	6 158	6 145	6 102	6 185	6 148	6 008
Survivors' pension	986	1 099	1 087	1 007	923	875	787	722
Total	45 878	49 118	51 583	53 628	55 797	58 452	60 692	64 203

Source: Budget 2007.

3.3 Public-sector pension schemes

Public-sector employees have their own occupational pension schemes. Almost all of them are defined benefit pension schemes. The public-sector additional pension schemes are statutory and the benefits are guaranteed by the Government or the employing local authority. The public-sector pension schemes are mainly of the "contract out" type, meaning that S2P pension provision has been replaced by a pension scheme which provides at least the same benefits. In Great Britain there are an estimated 10.5 million members in public service schemes. The largest public-sector pension schemes concern civil servants, employees in the healthcare sector, teachers, the armed forces, the police force, the fire brigades, fighter pilots and local government employees. Within the schemes there are different levels of benefits, depending on the year when the employment contract started and the job position. In total there are over 200 public-sector pension schemes, which adhere to the Public Civil Servants and Local Government Pension Scheme agreement.

2 Disability pensions consist of: Incapacity benefit – long term (5857) and Incapacity benefit – earnings related (328). The amount of short-term disability benefits would have totalled £466 million in 2005/06.

Table 8. *Premium income in public-sector pension schemes in 2000–2006, million £. **

	2000	2001	2002	2003	2004	2005	2006
Employers' contributions	4 226	4 711	5 111	7 322	8 235	8 470	9 364
Employees' contributions	3 118	3 489	4 211	5 321	5 754	6 796	6 998
Imputed social contributions	5 538	5 620	6 282	4 311	3 709	4 975	4 743
Total	12 882	13 820	15 604	16 954	17 698	20 241	21 105

* Includes the pension schemes for civil servants, the armed forces, teachers and healthcare personnel (NHS) as well as the share of the local government pension scheme, which includes the pension schemes for police officers and fighter pilots.

Source: Blue Book 2007.

4 Financing of occupational pension schemes

In Great Britain surveys have been carried out on occupational pension schemes in 2000, 2004, 2005 and 2006. The 2005 survey included only private-sector pension schemes, whereas in other instances public-sector occupational pension schemes were also included.

Public-sector occupational pension schemes cover e.g. central and local government, education, healthcare and social services, the police force and the armed forces.

The employers commonly arrange pension provision which supplements national insurance and earnings-related pension provision for the employees. An estimated fifty per cent of wage earners are covered by such additional provision. Of these occupational arrangements approximately 90 per cent at the same time replace the statutory additional pension. The Government has set as an objective that in the long term 60 per cent of the citizens' pension will consist of private and occupational pensions, and 40 per cent of earnings-related and basic pensions. In recent years the share of the statutory pension has been approximately 56 per cent of the pensioner's income and private pension arrangements 44 per cent.

The total premium income to all occupational (incl. public sector) and individual pension schemes increased from £34 billion (1995) to approximately £75 billion in 2005 (approx. 6% in relation to GDP). Many employers pay lump-sum contribution amounts to defined benefit schemes, and these contributions may be additional contributions or percentages of the wage.

4.1 Occupational pension schemes

In the private sector the occupational pension schemes which cover at least 12 employees number approximately 14 200. The majority of schemes which cover more than 100 persons are defined benefit schemes.

Table 9. *Number of active members insured in private-sector occupational pension schemes in 2005, million persons.*

Scheme size (total membership)	Defined benefit	Defined contribution	Total
10 000+	2.3	0.34	2.65
5 000–9 999	0.32	0.22	0.55
1 000–4 999	0.58	0.12	0.70
100–999	0.41	0.16	0.57
12–99	0.03	0.06	0.09
2–11	0.01	0.13	0.14
Total	3.66	1.02	4.68

Source: Occupational Pension Schemes 2005.

The benefits paid from the occupational pension schemes are usually old-age and survivors' pensions, but disability pensions are also common. Most employees are still covered by a defined benefit pension scheme, but the scope of defined contribution pension schemes is

increasing strongly. In most defined benefit schemes the employees pay a fixed contribution determined in advance and the employers balance the contribution amounts up. As pension expenditure is increasing, some companies have increased the pension contribution demanded from the employees.

Table 10. *Private-sector contributions by size and type of occupational pension scheme in 2005, % of wages.*

Scheme size (total membership)	Defined benefit			Defined contribution		
	Employee	Employer	Total	Employee	Employer	Total
10 000+	4.0%	16.5%	20.5%	2.8%	6.8%	9.6%
5 000–9 999	4.7%	16.9%	21.6%	1.7%	6.5%	8.2%
1 000–4 999	5.1%	13.2%	18.3%	3.0%	5.0%	8.0%
100–999	5.0%	15.7%	20.8%	3.1%	6.2%	9.4%
12–99	4.3%	19.8%	24.1%	3.9%	5.9%	9.9%

Source: Occupational Pension Schemes 2005.

The weighted average of the contributions paid to all private pension schemes was 4.1 per cent for employees and 14.2 per cent for employers. Correspondingly, the weighted average for defined benefit occupational pension schemes was 4.4 per cent for employees and 16.0 per cent for employers. The weighted average for defined contribution occupational pension schemes was 2.7 per cent for employees and 6.3 per cent for employers.

The corresponding figures in the previous survey in 2004 were 4.3 per cent and 14.5 per cent in defined benefit schemes and 2.9 per cent and 6.0 per cent in defined contribution schemes.

Table 11. *Employee's contributions to occupational pension schemes in per cent of the wage in 2005.*

	Defined benefit	Defined contribution
Under 2%	1%	2%
2% – under 3%	2%	20%
3% – under 4%	3%	16%
4% – under 5%	12%	12%
5% – under 6%	22%	14%
6% – under 7%	27%	3%
7% and over	11%	1%
Not statutory (non-contributory) or other basis	20%	22%
No response	1%	10%

Source: Occupational Pension Schemes 2005.

Table 12. *Employer's contributions to occupational pension schemes in per cent of the wage in 2005.*

	Defined benefit	Defined contribution
Under 4%	1%	13%
4% – under 8%	4%	49%
8% – under 10%	6%	17%
10% – under 12%	13%	9%
12% – under 15%	24%	1%
15% – under 20%	20%	1%
20% and over	27%	0%
Not statutory (non-contributory) or other basis	3%	0%
No response	3%	10%

Source: Occupational Pension Schemes 2005.

Both the employer's and the employee's contributions to defined benefit schemes are considerably higher than the contributions to defined contribution schemes. In addition, employers paid significant lump-sum contribution amounts to defined benefit schemes.

Table 13. *Percentage of employees who pay additional voluntary contributions by company size and pension scheme, % of the employees.*

Scheme size (total membership)	Defined benefit	Defined contribution	Total
10 000+	9%	14%	10%
5 000–9 999	8%	12%	10%
1 000–4 999	11%	19%	13%
100–999	8%	14%	9%
12–99	4%	14%	10%
Total	9%	14%	10%

Source: Occupational Pension Schemes 2005.

Since 1988 it has been possible for the employee to pay additional voluntary contributions, AVC to all schemes. The number of persons who pay additional contributions has decreased by approximately 3 per cent compared to the 2004 survey. On average 10 per cent of the employees paid additional contributions, which corresponds to approximately 400 000 insured.

Table 14. *Contributions to occupational pension schemes, billion £.*

	2000	2001	2002	2003	2004	2005
Funded occupational pension schemes	22.9	23.2	25.9	32.1	36.3	42.1
Employer	16.2	16.5	19.2	25.4	29.6	35.1
Employee	6.7	6.7	6.7	6.7	6.7	7.0
Individual pension schemes	12.5	12.9	13.9	14.3	14.5	14.7
Employer	4.0	4.4	5.1	5.8	6.0	6.1
Employee	8.5	8.4	8.8	8.5	8.4	8.6
Total contributions to occupational pension schemes	35.4	36.1	39.8	46.4	50.8	56.8
Employer	20.2	20.9	24.3	31.2	35.6	41.2
Employee	15.2	15.1	15.5	15.2	15.1	15.6

Source: Wild, Richard (2006).

Individual pension schemes include: Personal Pensions, Group Personal Pension, stakeholder pension and Free Standing Additional Voluntary Contributions (FSAVCs)³.

If the occupational pensions included so-called tax reliefs granted for private pension contributions, they would have amounted to £15.4 billion in the tax year 2005/06. The occupational pension contributions would thus total over £72 billion. The unfunded occupational pension schemes may also include public-sector pensions, but they were already analysed earlier in section 4, and therefore they are differentiated from the individual pension schemes analysed here.

4.2 Personal pension provision which replaces the statutory S2P pension

The personal pension arrangements which replace statutory S2P pension provision (formerly SERPS) are called Appropriate Personal Pension Schemes (APP) and since 6 April 2001 Appropriate Personal Pension Stakeholder Pension Schemes (APPSHP). If the scheme is handled by the employer, the scheme is a Contracted-out Money Purchase scheme (COMP) or a Contracted-out Money Purchase Stakeholder Pension Scheme (COMPSHP).

Personal pension arrangements also require a certificate of approval from the Contributions Office. In order to obtain this certificate the arrangement should follow the rules regarding “protected rights” in the same manner as occupational pension schemes.

The personal pension arrangement should always be a defined contribution arrangement. The employer and the employee continue to pay unreduced social insurance contributions. The Contributions Office of the tax administration transfers the refund, which is dependent on the insured person’s age and earnings, directly to the pension provider reported by the employee. In the tax year 2005/2006 the refunds amounted to 8.4–21.0 per cent of the earnings which fall below the Lower Earnings Threshold (LET) of the S2P pension scheme, 2.1–5.25 per cent of the annual earnings ranging between the Earnings Threshold and £27 800, and 4.2–10.5 per cent of the earnings which exceed this amount.

4.2.1 Personal Pension

The personal pension is a defined contribution pension arrangement where the amount of the pension depends on the size of the contributions and the investment returns. Anyone who lives in the country and who is aged less than 75 may arrange a personal pension e.g. with an insurance company or a bank. It is possible to draw on the personal pension between ages 50 and 75. Normally 25 per cent of the non-Protected Rights Fund is drawn on as a tax-exempt lump sum on retirement. With the remaining amount pension provision for the time in retirement has to be bought. Pension provision does not have to be arranged with the company with which the person has previously saved for retirement.

3 Free Standing Additional Voluntary Contribution (FSAVCs) is a type of benefit, where persons who are covered by defined benefit occupational pension schemes can save for additional pensions outside pension provision arranged by the company.

4.2.2 Stakeholder Pension

The Stakeholder pension is a personal defined contribution pension, which is intended as a low-cost and flexible pension arrangement. This pension is directed especially at middle-income wage earners and persons who have not been able to join the occupational pension scheme or for whom a personal pension has been too expensive. Like the personal pension, the Stakeholder pension may replace the S2P pension when the preconditions are met. Saving is voluntary and it is supported through the taxation. The Stakeholder pension is one of the Government's key means of trying to increase pension savings. Through the Stakeholder pensions the Government also strives to increase the individual's responsibility for the arranging of pension provision. It is possible to start drawing on the pension between ages 50 and 75. On retirement 25 per cent of the fund may be taken as a tax-exempt lump sum, excluding protected rights.

Table 15. *Stakeholder pensions and personal pensions at the end of the tax year 2005.*

Earnings level £	Personal pensions		Stakeholder pensions		Personal and Stakeholder*	
	Members (thousand)	Insured person's average annual contribution	Members	Insured person's average annual contribution	Members	Insured person's average annual contribution
Employees						
0–	820	1260	260	910	1030	1220
10 000–	1430	1320	450	830	1780	1270
20 000–	1050	1890	330	1210	1290	1850
30 000–	1010	3880	250	2970	1180	3950
Total	4300	2040	1290	1360	5280	2000
Self-employed persons						
0–	460	780	80	920	500	860
10 000–	330	940	50	1130	370	1020
20 000–	180	1260	30	1460	200	1360
30 000–	240	3430	40	4490	270	3780
Total	1200	1430	200	1720	1330	1560
Total	5580	1910	1590	1450	6770	1910

* The column includes persons who pay pension contributions to either of the schemes or to both schemes. Therefore the column Personal pensions and the column Stakeholder pensions cannot be directly summed up.

The average contribution includes in gross amounts the personal pension contributions and the contributions paid by the employer during the year as well as the minimum contributions.

Source: HM Revenue and Customs, <http://www.hmrc.gov.uk/stats/pensions/menu-by-year.htm>.

The employer has to offer the employees the possibility of arranging Stakeholder pensions, unless they are separately exempted from this obligation. The employer does not have to provide a Stakeholder pension, if he employs less than five employees or offers an occupational pension scheme for all the employees within one year of the start of the work. The employer may also be exempted, if he pays at least 3 per cent of the earnings to the employees for a separate pension, provided that the employees who want to leave this arrangement do not suffer a reduction in their pension. The employer does also not have to offer the possibility of arranging a Stakeholder pension, if the employee's earnings are below the Lower Earnings Limit.

The premium income from Stakeholder pensions in the tax year 2005/2006 amounted to approximately £1 240 million, where the employer's contributions amounted to £430 million, personal contributions to £770 million and so-called minimum contributions to £40 million. The scheme covered approximately 1.42 million members.

5 Examples

In the following the total contribution level of statutory and private-sector occupational pensions is analysed. The range of occupational pension contributions is pretty wide, since the contributions are determined separately by each company, and even within the same company the contribution and the benefit level may vary for different employee groups. The examples use the weighted average calculated from these figures for the study Occupational Pension Schemes. In addition, the most frequent contribution ranges in 2005, as indicated by a survey, have been included.

As regards defined benefit pension schemes, most of the employees' contributions fall within the range of 4–7 per cent and the employers' contributions within the range of 10–20 per cent or higher. As regards defined contribution schemes, the contributions are on average 2–6 per cent for the employees and between less than 4 per cent and approximately 10 per cent for the employers.

The contributions are analysed for two income levels, a middle-income wage earner and a wage earner whose earnings amount to twice the average wage. The calculations use the average wage according to the OECD Economic Outlook database, which in 2005 amounted to approximately £2 447 per month. When calculating the contributions, the wage limits for which contributions are levied are taken into account, and the share of the healthcare contribution has been deducted from the statutory social insurance contribution.

Table 16. *Pension contributions (%) for an employee who is only covered by the statutory pension schemes.*

Wage	Statutory pensions		Occupational pensions		Statutory and occupational pensions		
	Employee's contributions	Employer's contributions	Employee's contributions	Employer's contributions	Employee's contributions	Employer's contributions	All in total
1	9.1	7.5			9.1	7.5	16.6
2	10.0	4.2			10.0	4.2	14.2

Table 17. *Pension contributions (%) for an employee who is covered by an occupational defined benefit pension scheme.*

Wage	Statutory pensions		Occupational pensions		Statutory and occupational pensions		
	Employee's contributions	Employer's contributions	Employee's contributions	Employer's contributions	Employee's contributions	Employer's contributions	All in total
1	6.2	6.1	4.4 (4–7)	16.0 (10–20)	10.6 (10.2–13.2)	22.1 (16.1–26.2)	32.7 (26.3–39.4)
2	8.3	3.5	4.4 (4–7)	16.0 (10–20)	12.7 (12.3–15.3)	19.5 (13.5–23.5)	32.2 (25.8–38.8)

Table 18. *Pension contributions (%) for an employee who is covered by an occupational defined contribution pension scheme.*

Wage	Statutory pensions		Occupational pensions		Statutory and occupational pensions		
	Employee's contributions	Employer's contributions	Employee's contributions	Employer's contributions	Employee's contributions	Employer's contributions	All in total
1	8.3	6.1	2.7 (2–6)	6.3 (3–10)	11.0 (10.3–16.1)	12.4 (9.1–12.1)	23.4 (19.4–28.2)
2	9.5	3.5	2.7 (2–6)	6.3 (3–10)	12.2 (11.5–15.5)	9.8 (6.5–13.5)	22.0 (18.0–29.0)

The examples do not take into account pension contributions to the Stakeholder and Personal Pension schemes, since the comparison was intended to include only statutory and occupational pensions. The average contribution paid to the Stakeholder pension was approximately £1 450, which corresponds to about 4.9 per cent of a middle-income wage earner's annual earnings. Correspondingly, the average contribution paid to the Personal Pension scheme was approximately £1 910, which corresponds to about 6.5 per cent of a middle-income wage earner's annual earnings. If the insured person paid contributions to both the Stakeholder and the Personal Pension schemes, the average contribution was approximately 6.5 per cent of the annual earnings.

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Appendices

Appendix 1. Descriptions of different statutory benefits

Pension Credit

The Pension Credit is intended for persons who have reached the age of 60 and who live in Great Britain. The income-tested Minimum Income Guarantee, MIG, which concerned pension recipients with the lowest incomes, was in October 2003 replaced by the Pension Credit. The Pension Credit consists of two separate components: the guarantee credit and the savings credit. The Pension Credit alleviated the effects of other incomes on the Minimum Income Guarantee, which means that as much as one million additional persons are entitled to the benefit.

The Pension Credit is based on earnings, savings and other circumstances. Savings and capital are not taken into account, if the couple's aggregated savings are below £6 000 (approx. €8 646). Savings which exceed £6 000 are taken into account as weekly earnings to the amount of £1 (€1.44) for every £500 (approx. €720) which exceeds the limit.

Non-contributory Retirement Pension

Persons who live in Great Britain and who have reached the age of 80 may be paid a non-contributory minimum pension (Over 80's Pension), if the person is not entitled to a contributory pension or if the pension is very small. The precondition is that the other pensions are below the level of the minimum pension. In addition, the pension recipient must have lived in the country for 10 years after reaching the age of 60. Periods of residence in other EU countries may be taken into account in this connection. The pension amounts to a maximum of 60 per cent of the State Pension.

War Pensions and War Widows Pensions

War Pension is a pension payable to war veterans, where their spouse/dependants may also receive a benefit.

Severe Disablement Allowance, SDA

Before the 2001 disability pension reform severely disabled persons aged 16–65 were granted Severe Disablement Allowance, SDA. This was a minimum benefit, which was paid to disabled persons who did not have enough contribution periods in order to be awarded a contributory disability pension. SDAs in payment will be paid out as long as the applicant meets the entitlement criteria.

Over-65s payments and over-70s payments are additional benefits for pensioners who have reached a certain age.

Winter Fuel Payments

Tax-exempt benefit to cover the costs for the heating of houses and apartments, granted to over-60s. The benefit expenditure also includes a special allowance granted to men aged 60–64 and an allowance to over-80s.

Attendance Allowance

If the insured person has reached the age of 65 and needs personal care and attendance due to illness or disability, the person may be entitled to Attendance Allowance. The benefit does not presuppose payment of contributions. It may be paid in addition to other benefits, and it is not dependent on the applicant's other income or wealth.

Basic State Pension

The Basic State Pension is a flat-rate pension scheme, where the amount of the pension depends on the number of payments of National Insurance contributions (National Insurance record). The general retirement age for the old-age pension is 65 for men and 60 for women. The retirement age for women will be gradually increased to 65 years between 2010 and 2020. This change does not concern persons born before 6 May 1950. The retirement age for men will not change. In order to be entitled to a full Basic State Pension, contributions or refunds should have been paid for about 90 per cent of the working career. If the time of insurance is not sufficiently long for the awarding of a full pension, but still covers at least 25 per cent of the working career, a pension reduced in proportion to the time which is missing from a full period of insurance is paid.

Disability pension

The Incapacity Benefit, IB is intended for disabled persons who reside in the country and who have not yet reached retirement age, currently under 60 years for women and under 65 for men. The benefit is not means-tested. A short-term incapacity benefit may be granted for a maximum of 52 weeks, if the incapacity for work started before retirement age or can be connected to a period of incapacity for work before retirement age. The entitlement to an incapacity benefit depends on the paid social security contributions.

Survivors' pension

In the National Insurance scheme the benefits which correspond to survivors' pensions are Widowed Parent's Allowance, WPA (formerly Widowed Mother's Allowance), Bereavement Allowance (formerly Widow's Pension), Bereavement Payment (formerly Widow's Payment) and Guardian's Allowance.

S2P old-age pension

The S2P pension is an additional pension in the National Insurance scheme payable on top of the State Pension. The amount of the benefits is dependent on the earnings level during the period of contribution payment. 6 April 2002 a new statutory additional pension scheme, the S2P (State Second Pension), was introduced in Great Britain with the objective of improving pension provision for low-income wage earners and long-term ill and disabled persons. The current S2P scheme replaced the preceding SERPS scheme (State Earnings-Related Pension Scheme), which was regulated through an Act of 1975 and initiated in 1978.

The S2P scheme is mandatory for all wage earners whose earnings exceeded the Lower Earnings Limit (LEL) of £4 264 (€6 276) in 2005/2006. The scheme does not cover self-employed persons. The S2P scheme provides more pension for the employees, especially for low-income wage earners.

Appendix 2. Contributions in 2005/2006

Class 1 (employed)	Level in contracted-in arrangements	
Earnings £ per week	employee %	employer %
below 94.01	0	0
94.01–630.00	11.0	12.8
over 630.00	1.0	12.8
Class 2 (self-employed persons), earnings over	4 345 £/year	2.10 £/week
Class 3 (voluntary)	-	7.35 £/week
Class 4 (self-employed persons, additional levy)		
On profits and gains		
between 4 895 and 32 760	-	8.0%
over 32 760	-	1.0%
Contracting-out rebates		
defined benefit schemes		
for the employer 3.5% of the earnings		
defined contribution schemes		
rebates start at 2.6% of the earnings (1.6% for the employees).		
capped at 10.5% from age 54		
appropriate personal pension,		
rebates start at 2.6% of the earnings (1.6% for the employees).		
capped at 10.5% from age 54		
Rebates doubled for COMP and APPS		
for earnings between £4 264 and 12 100 per year.		
Rebates halved for earnings between 12 100 and 27 800.		
Earnings limits	£/week	£/year
Lower Earnings Limit, LEL		
also Qualifying Earnings Factor	82	4 264
Earnings Threshold		
(Primary Threshold, ET)	94	4 895
Lower Earnings Threshold, LET	-	12 100
Upper Earnings Threshold, UET	-	27 800
Upper Earnings Limit, UEL	630	32 760

Source: Tax Tables 2005/2006. www.friendsprovident.co.uk/doclib/xg39.pdf.



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